

EGREMONT TOWN MEETING
JUNE 8, 2021
FINANCE COMMITTEE REPORT AND RECOMMENDATIONS¹

OVERVIEW

The Selectboard's proposed **operating** budget for the town for Fiscal Year 7/1/2021-6/30/2022 ("FY22") totals \$3,176,394, an increase of \$159,137 (5.3%) over Fiscal Year 2020 -2021 ("FY21"). The proposed **school operating, transportation, and capital budget**, including bond repayments, totals \$1,757,965, an increase of \$53,434 (3.1% over FY21). The town's operating budget plus school budget totals \$4,934,359, an increase of \$212,571 (4.5% over FY21). Also included in the town's budget for FY21, assuming all special articles in the warrant pass in the amounts proposed by the Selectboard, is an additional \$1,878,400. It is proposed that \$1,195,000 be borrowed, \$3,000 be transferred from the cemetery perpetual care account, \$156,800 be raised and appropriated and \$523,600 be paid for from free cash.

Our current free cash balance is \$586,928. Since the Selectboard proposes that many special articles on the warrant be funded from free cash, our free cash balance after town meeting, assuming all items approved, will be \$63,328. Combined with our stabilization fund balance of \$414,789 the town's total reserves will be \$478,117. Overly surplus funds are not included. Reserves (Certified Free Cash and Stabilization Funds and Overlay Surplus) amounts in towns and cities in the western area of Massachusetts average between 6 and 9% of the town's total budget. Our total budget, comprised of town operating budget (\$3,176,394), school operating, transportation, capital, and bond budget (\$1,757,965), and proposed special articles (\$1,878,400) is \$6,812,759. The Water Department's subsidy will add \$5,263 to town budget for grand total of \$6,818,022. The town's reserves after town meeting will be 7% of the total budget.

Free cash will be recertified in the fall after fiscal year 2021 closes, and it is estimated, by historic standards, to increase by \$230,000. Last year with COVID restrictions, many line items did not get spent, adding to free cash. Historically, the town has utilized free cash to fund in whole or in part capital expenses or one-off expenses.

Our real estate tax rate for the year is determined by the Department of Revenue in the fall by (1) adding our total budgeted expenditures approved at town meeting, including the line items (article 2 on the warrant), and the financial impact of those special articles that are not paid out of free cash or stabilization fund, any charges for the water department not subsidized up front, snow and ice expenditures over the budgeted amount, and certain other items, and (2) subtracting anticipated receipts from fees and charges and monies paid to the town by the state, and spreading the resulting balance over the assessed valuation of all real estate in the town. Total town assessed valuation changes from year to year as new homes are built and renovations completed. We have had additional new homes built and many others renovated during FY21 which will result in additional tax revenue for FY22. However, based on the assessed value of your home, your taxes may go up, not down.

¹ A summary of the Finance Committee's recommendations (including attachments) is on the town website, has been emailed to those whose e-mail addresses the town has, and has been distributed to various locations in print throughout town. The recommendations will also be available in print at the town meeting.

For FY 21 the formula described above produced a tax rate of \$9.35 per \$1,000 of assessed valuation, down from \$9.49 in FY20. We will not know the tax rate and the impact on real estate taxes for FY22 until the fall. In FY22 Egremont will be in the fortunate position of collecting local occupancy taxes and impact fees which will help to reduce taxpayers' taxes. State and local receipts are estimated at \$255,090 for FY22.

SCHOOL BUDGET

The Regional School Budget for FY22 is \$17,794,556, a 1.49% increase over the FY21 budget of \$17,533,097. Chapter 70 aid from the state totals \$2,006,891, substantially the same as FY21. Chapter 71 - State transportation aid is \$833,987, an additional \$23,119 over FY21. Approximately 670 students from the 5 district towns are enrolled. While some towns showed a decrease of students attending the school, Egremont showed an increase of 8 students over last year. Each town's share of the operating and capital budgets, per the current five-town regional agreement, is based on the minimum required contribution that is established by the Mass Department of Secondary and Elementary Education (DESE). Some of the factors that are included in the Commonwealth's calculations are:

- Number of students residing in each town being educated in public schools
- Each town's property wealth based on equalized property valuations
- Each town's income wealth (based on the total personal income reported to the Department of Revenue by Sheffield residents)
- How far or close each town's calculated preliminary minimum required contribution is to the state's "target" contribution for that town
- Each town's "Municipal Growth Factor" (based on new growth in the town)

Based on the above formula, Egremont's share to be contributed in FY22 is estimated to be 12.5% of the School budget, after receipts and state aid are taken into consideration.

SALARY/WAGES/BENEFITS

The Selectboard, considering the recommendation of the Compensation Committee, proposes a 2.75% raise for all town hourly employees (non-exempt employees) and a pool of 5% of last year's salaries for exempt employees to be distributed among them, based on merit reviews. Exempt employee increases total \$17,488 and non-exempt employee increases total \$14,617, a total increase of \$32,105. Salary/wages cost to taxpayers of non-exempt and exempt employees for FY21 is \$612,592, an increase of 12.3% over FY21. The details on the 12.3% increase are as follows:

- The Town Clerk's hours will be increased by 2 hours a week to 10 from 8
- The Personnel Director's hours will be increased to 8 per week from 6
- The Board of Health Director's hours will be increased to 27 per week from 20 (The Sustainability Coordinator position at \$7,081 was eliminated and the BOH Director assumed those duties at 2 hours per week as opposed to the 6 hours per week in prior years. The duties of the Sustainability Coordinator have been reduced over time and the BOH Director can now assume those remaining duties into her position as Board of Health Director)
- Three new part time employees (two van drivers and an administrator) are being hired to support the transportation program at a total of \$48,412 per year

- The transfer station substitute's hours will be increased to 14 from 11, plus coverage for vacations and holidays

Salaries/wages for all elected positions, except for Town Clerk and Tree Warden, who historically receive raises in line with non-exempt employees, remained the same.

For FY22, salaries/wages, over-time accounts including officials' salaries, stipends, associated payroll costs, etc. total \$680,254. Police collective bargaining totals \$311,057 (2.3% over FY21); highway collective bargaining totals \$170,884 (2.7% over FY21).

In checking with other towns in Massachusetts who choose to reveal what raises they are considering for FY22, the Finance Committee sees a range of 0-3.5%. Most towns who chose to participate in the survey of raises for FY22 are in the range of 2 to 3%.

According to the Mass Interlocal Insurance Association (MIIA), of which the town is a member, health insurance premiums for FY22 will increase 3.8%. Our total line item for insurance is \$307,749, an increase of \$6,199 (2.0%) over FY21. We provide health, dental and life insurance plans for all employees at a contribution rate of 75% (town) and 25% (employee).

Pension contributions to the Berkshire County Retirement System total \$206,120 (10.0% over FY21). The grand total of salaries/wages, associated payroll costs, police and highway collective bargaining amounts, benefits, and pension contributions is \$1,774,787 (12% over FY21).

TRANSPORTATION PROGRAM

Under warrant line item N under "Human Services" Public Transport you will see that the amount of \$18,087 for FY21 has increased to \$56,578 for FY22. This is due to a grant having been received for a van with the hope that Egremont will be able to provide and improve services that had been provided in the past by the Southern Berkshire Elderly Transportation Corporation. That corporation abruptly stopped providing any type of ride in May of last year. A COVID transportation grant helped us fund rides for our elderly and disabled and essential workers to doctors' visits, etc. We have received a renewal of the COVID grant but transportation will remain a problem as grant funds run out. Alford and Mt. Washington have been asked to contribute a total of \$6,000 to be included in Egremont's transportation program. In addition to volunteers, we will hire a part time administrator (19 hour week) and one 19 hour per week and one 11 hour per week driver. The Selectboard is hoping to initiate this program in time for the September delivery of the van. The Finance Committee deems transport for our elderly and disabled to be a priority.

PROPERTY AND CASUALTY INSURANCE PREMIUMS/SPECIAL RISK.

The town's insurance costs are for professional liability for police and fire, general liability, workers' compensation and property and casualty insurance for the town's assets. The town's asset mix changes from year to year. Egremont currently has approximately \$8.6 million in property value. This includes vehicles, equipment, and buildings (with contents). The cost of insurance for this property is expected to rise from \$122,557 in FY21 to \$126,923 in FY22, an increase of \$4,366 (3.6%) from FY21. If approved at town meeting, the capital purchases will be added to the policy. The town's insurer is the Massachusetts Interlocal Insurance Association (MIIA). It is a non-profit member service that insures 400 cities, towns, and other public entities in Massachusetts. The town's coverage has low deductibles, usually \$500 per occurrence.

The Finance Committee explored with MIIA whether higher deductibles would provide lower cost to the town. Unfortunately, auto deductibles as high as \$3,000 lowered total premiums by only \$617. Raising property deductibles to as much as \$5,000 only reduced premium cost by \$2,646. Consequently, the Finance Committee concluded there would not be any meaningful cost reduction from raising deductibles.

POLICE DEPARTMENT BUDGET

This is the last year of a 3-year contract. The Selectboard and a member of the Finance Committee will begin negotiations with the police union on a new 3-year contract in September 2021, for FY22-23, FY23-24 and FY24-25. If town meeting ratifies the new contract next May, it will ratify all 3 years, although town meeting must vote the funds needed for Collective Bargaining each year. The current contract calls for a lateral raise of 2.75% on July 1, 2021, plus a vertical raise on the same date if an officer has a satisfactory review, an overall raise of more than 9% per annum for 3 of our 4 full time officers. One officer hit the top of the pay grade in FY21. We currently have 4 full time officers and 2 to 3 part time officers. Prior to this fiscal year the town employed 3 full time officers and 6 to 8 part timers.

The Police Department budget totals \$442,438, including \$311,057 for collective bargaining. That is an increase of \$5,261 (1.2%) over FY21. The slight increase is due mostly to the proposed acquisition of a new cruiser, leading to lower vehicle expenses.

HIGHWAY DEPARTMENT BUDGET

The Highway Department's budget for FY22 is \$602,357, an increase of \$7,753 (1.3%) over FY21. Salaries and wages for highway personnel are estimated to be \$170,884. This is also the last year of a 3-year contract. Negotiations between the Selectboard, a member of the Finance Committee and the highway union will begin in September 2021. Raises for our highway personnel are 2.75% pursuant to the contract.

In Article 16 of the Warrant, the Department is requesting \$150,000 to make repairs to town roads. \$150,000 will enable it to complete resurfacing 3 to 5 miles of town roads per year, depending on the cost of materials. There are approximately 43 miles of town roads, and it is hoped that with additional monies each year roads would be able to be repaired and/or resurfaced every 8 years as opposed to 12 years.

The Finance Committee believes it is important to maintain our roads for the safety and welfare of our townspeople.

Creamery Road has been resurfaced using Chapter 90 funds. McGee Road is on the schedule this year. Those funds are received from the state yearly to support constructing, repairing, and maintaining town roads. It is expected that the town will receive \$165,519 in FY22. Article 20 of the warrant asks the town to accept the funds being offered by the state.

The town's snow and ice expenditure budget remains at \$70,000, although overruns are common. Most of the money is spent for materials used in winter maintenance that are purchased during the off season to lower costs. The Highway Department added snow and ice equipment repairs to its vehicle maintenance and repairs line item to more accurately account for what is being spent on repairs. The line item is \$3,000 less than FY21. There are two Warrant articles, Article 15 and Article 27, requesting a new pick-up truck and a new dump truck.

WATER DEPARTMENT

The Water Department's proposed budget for FY22 is \$240,263. Our Water Department operator received his certification as the principal distribution operator (D-1) and primary treatment operator (T-1) in September of 2020. The Department no longer needs to pay the licensed operator under whom he was working while completing his training, saving the town money. Water rates have been raised and the Water Department's projected receivables for FY22 are estimated at \$235,000. The Water Department has no retained earnings. The taxpayer subsidy for FY22 is proposed to be \$5,263. This will be raised by taxing the general taxpayer and appropriating it to the Water Department.

The Water Department refinancing debt will be paid off in 2022.

The Finance Committee recommends approval of the Water Department Budget.

DEBT AND INTEREST

Principal and interest due in FY22 on the new rescue vehicle is \$69,334. Principal and interest due on the police facility loan in FY22 is \$30,450. Both the rescue vehicle and police facility borrowings will be fully paid off in fiscal year 2022. \$10,000 is set aside for any short-term interest debt.

The Mt. Washington Road project requires a debt service payment in the amount of \$46,400. We must start making principal payments in 2023. Outstanding principal balance is \$735,500. The Selectboard is asking for approval for an additional \$335,000 in borrowing for the next phase of the project, which would bring the total borrowings to \$1,070,500. That amount was the original amount quoted for 100% of the design phase (for which the town is responsible), but now covers only 75% of it. We are expected to see the first 25% design soon, but the 75% design only in the spring of 2022.

The town has been making interest only payments on the borrowings and rolling over the principal amounts. That is ending. Initial borrowing authorization for the engineering phase of the project was \$1,071,000. The Selectboard has been advised by the engineers that the cost to complete the engineering through construction is \$1,005,770, not including the initial \$535,500 already spent. The additional \$200,000 authorized at a special town meeting is included in the \$1,005,770. The project is now at \$1,541,270, an increase of \$470,770 (44%). There will be an additional request for funds once the initial borrowing authorization limit is reached.

The Finance Committee was against this project from the start. Now the town has become pregnant, and we would lose the money already spent should we abandon the project. The Finance Committee reluctantly recommends approval of the additional \$335,000 with the hope that the state fixes the road (at a cost that will be more than the initially projected \$12,000,000). The state will pay for most of the construction costs which are now projected at \$14,000,000.

PROSPECTIVE BORROWINGS

Attached as Exhibit A is a projection of the total amount of borrowings expected due to FY22 warrant articles if all are passed. Financing options have not yet been decided. You will see that in 2021 total debt is

\$988,500. We are paying off the police facility and water department debt and making inroads on the rescue truck debt. In 2022, assuming all borrowing articles pass, we will have \$1,997,500 principal amount of debt. In FY23 the town will have \$2,117,000 principal amount of debt.

CAPITAL PLANNING AND PURCHASES

With the FY22 budget, the town is committing to several critical capital investments, ranging from new equipment like fire trucks and maintenance vehicles, a building for our Building & Grounds Department to ongoing work on roadways in the town. These investments are, as our commentary indicates, necessary to maintain the level of services that residents have come to expect from the town. Furthermore, as mentioned in “Overview,” the town’s finances are healthy, with reserves at 7% despite the demands of the pandemic.

With these capital purchases in mind, the Finance Committee has initiated an Annual Capital Planning Exercise with the Selectboard and each town department to:

(1) Review capital available for investments

Finances may ebb and flow. Prudent financial management dictates that the town should make capital investments during times in which capital is available or the town’s credit rating and its future outlook are strong.

(2) Plan and anticipate capital expenditures well in advance

Capital planning is never done. The Selectboard and town staff should think in 5-year increments, looking at least 5 to 10 years into the future and ideally 15 to 20 years ahead. With a major purchase, like a fire truck, the Commonwealth and the manufacturer/vendor typically provide an estimate of useful life, and town staff should begin planning for the future replacement of the new equipment at the time of delivery.

(3) Plan related expenses

Maintenance and repairs are facts of life for the town as they are for its residents. The Annual Capital Planning Exercise will encourage town staff to plan for operating expenses, including proactive maintenance and repairs, to maximize the useful life and minimize downtime.

(4) Maintain a consistent process and accurate asset inventory

A consistent process from year to year facilitates discipline and accuracy. The Finance Committee has created a template for the Annual Capital Planning Exercise, which includes an asset inventory by department, key assumptions, and more.

For this planning cycle, the Finance Committee has created a template and accounted for initial estimates by town departments. By the next town meeting, the Finance Committee will update its template with actuals as they are recorded, as well as assumptions/heuristics for annual maintenance and repairs. We expect that the FY23 Annual Capital Planning Exercise will be more detailed.

Finance Committee for Fiscal Year 2020-2021

Laura Allen, Chairman
Thomas Berkel, Secretary
Frank Penglase

Michael Bandzierz, Vice Chairman (Part Year)
Bryan Frank
Amy Pulver

EXHIBIT A
TOWN OF EGREMONT DEBT CONSIDERATIONS

The FY22 Warrant Special Articles, if approved, involve four items that will require long-term borrowing: the Mt. Washington Road engineering for \$335,000, a Highway truck for \$270,000, a Fire truck for \$315,000, and a Building and Grounds building for \$275,000. These items total \$1,195,000. When including these items, the town's debt profile is shown below.

DEBT AMOUNTS OUTSTANDING - \$

| | <u>6/30/21</u> | <u>6/30/22</u> | <u>6/30/23</u> |
|-----------------------------|----------------|------------------|------------------|
| Police Facility | 30,000 | | |
| Water Company | 90,000 | | |
| Fire Equipment | 133,000 | 67,000 | |
| Mt. Washington Road | 735,500 | 1,070,500 | 1,029,000 |
| Highway Truck | | 270,000 | 216,000 |
| Fire Truck | | 315,000 | 252,000 |
| B&G Building | | 275,000 | 220,000 |
| Future Capital Items (est.) | | | 400,000 |
| TOTAL DEBT | 988,500 | 1,997,500 | 2,117,000 |

Implied Interest at 2.5%

The above shows a rising debt level and increasing interest expense. Although the Police Facility and Water Department debts have been paid off, the additional items substantially offset this by over \$1 million. These levels are well within the Town's debt capacity, and we may want to consider a Bond issue in the next year to consolidate these debts and lock in today's historically low rates.